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12-13-07

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**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking into the Review of  
the California High Cost Fund B Program.

Rulemaking 06-06-028  
(Filed June 29, 2006)

**ASSIGNED COMMISSIONER'S RULING TO DESIGN  
AND IMPLEMENT A REVERSE AUCTION MECHANISM**

This ruling sets forth a procedural plan to develop the design and implementation of a reverse auction as contemplated in Decision (D.) 07-09-020. A reverse auction relies upon market forces, rather than cost-of-service models, as the basis to select a carrier of last resort (COLR) and to set the necessary levels of support in high-cost areas to meet the Commission's universal service goals. Upon implementation of a reverse auction mechanism, eligible carriers will bid on the level of support required to provide basic service as a COLR in specified high-cost areas. The winning bid will then form the basis for assigning COLR obligations and allocation of B-Fund support within designated high-cost areas.

Parties submitted preliminary comments on reverse auction issues on October 5, 2007 with reply comments on October 28, 2007. While parties express a range of views on reverse auctions, their comments highlight the complexities involved in the design and implementation of an appropriate mechanism, and the need to proceed in a careful and thoughtful manner.

Several parties agree on the value of designing and implementing the reverse auction first as a pilot project in one or a few limited service areas. A pilot project will provide the opportunity to test the operation of a reverse auction on a limited basis, and resolve any issues observed during the pilot operation before designing and deploying auctions on a broader basis. We agree, and shall give priority to applying any design and implementation measures first as a pilot project in one or a few limited regions.

As the next step in proceeding forward, we find merit in the approach suggested by Division of the Ratepayer Advocates (DRA) of forming separate working groups, each of which will focus on a different specialized area relating to the design of a reverse auction. The use of separate working groups will provide an efficient and flexible vehicle for exchange of ideas and information among technical experts in a less formal setting.

As defined below, three separate working groups shall be established, together with specific questions posed to be addressed by each group. The comments previously filed by parties provide a beginning framework for further discussion, and exchange of ideas on pertinent questions to be resolved to design and implement a reverse auction. The working group shall provide requisite industry expertise for its separate topic area. As a result, we urge parties to secure the most experienced and qualified experts on this issue. The goal of the working group is to develop areas of consensus on each question posed, or at least to narrow and clarify alternative approaches that may be disputed or where further information may be required.

### **Process for the Formation of the Working Groups**

In order to provide adequate notice and opportunity for participation in the working groups, this ruling shall be served on all certificated telephone corporations operating in California. In addition to parties in this proceeding,

any certificated telephone corporation that wishes to nominate members for a particular working group is invited to do so.

Membership in a working group shall be limited to no more than two representatives from each party. Nominations for participation in one or more working groups shall be sent by email within 10 business days of this ruling to [raworkshop@cpuc.ca.gov](mailto:raworkshop@cpuc.ca.gov), the designated Communications Division email address and served on parties to this proceeding. Requests shall indicate the particular working group(s) in which they seek to participate, and the names and email addresses of the individuals nominated. Prospective participants should nominate appropriate subject matter experts to the workshop who have the requisite expertise to discuss and respond to questions regarding the implementation issues as set forth below. Once membership nominations have been received, a subsequent ruling shall be issued establishing the membership roster for each working group and identifying contact information, with a designated Communications Division coordinator for each working group.

We shall allow a period of 45 calendar days after issuance of the ruling establishing the membership rosters for the working groups to proceed with meetings to exchange ideas and information, and to report back to the Commission on their progress in reaching consensus on designated questions, or to narrow any areas of difference. We request that dissenting positions be included within the report. Once its membership is established, each group will be free to establish its own schedules for meetings and processes for exchanging information and developing recommendations.

We shall designate a coordinator from the Commission's Communications Division to moderate and oversee each of the working groups. At the end of 45 days, each of the working groups shall file and serve a progress report, setting forth any consensus reached, or summarizing dissenting positions where

applicable. After receipt of these reports, a further determination will be made as to next steps, including the need for follow-up workshops and/or submission of written comments on designated issues.

Certain other outstanding issues remain to be resolved in Phase II of this proceeding, including issues relating to retail rate levels for COLR basic service subsequent to January 1, 2009, and the role of cost proxy updating consistent with the goals and principles set forth in D.07-09-020. In a subsequent ruling or order, we will provide appropriate guidance on the related Phase II issues that could have a bearing on the design and implementation of the reverse auction

### **Designation of Working Groups:**

Participants may nominate up to two members each for one or more of the following working groups. The topic area and questions to be addressed by each of the working groups are set forth below:

#### **Working Group 1: Service Provider Eligibility Requirements**

This working group will consider what specific eligibility criteria and service quality commitments should be required as a basis to participate in reverse auction bidding. The winning bidder must commit to meet appropriate parameters of acceptable COLR service consistent with the Commission's universal service policies and COLR service standards.

The working group shall address the following questions:

##### **a. Services to be included within the reverse auction bid**

Under existing rules, the designated COLR is required to offer "basic service" which is defined to include 16 elements,<sup>1</sup> many of which are based on a landline model. The COLR is also required to offer "Lifeline" rates as part of the "basic service" offering, thereby disadvantaging wireless carriers from applying

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<sup>1</sup> D.96-10-066, Appendix B, Rule 4.B.

as a COLR since they are explicitly excluded from receiving Lifeline subsidies. The success of any reverse auction, however will depend on having a sufficient number of qualified bidders to participate. Accordingly, we will revise our COLR requirements to be competitively and technologically neutral, consistent with state and federal telecommunications policies. To this end, the working group should address how the definition of basic services required to be offered by the COLR should be revised so as to provide for wireline, wireless and other nontraditional voice carriers to qualify as bidders for COLR status in the reverse auction. The working group should also address what minimum service(s) and attributes should be included within the bid covered by the reverse auction? Also, what limitations or conditions should be placed on service(s) that may be included within (or excluded from) the evaluation of the bid.

**b. Service Quality, Reliability, and Pricing Commitments**

The working group should address what service quality, pricing, and reliability standards and commitments should be placed on winning bidders as a condition of serving as COLR. For example, what minimum standard of reliable 911 service should be required to qualify as a COLR as a result of a reverse auction bid? Should the bid include commitments concerning the maximum level of retail prices to be charged? What threshold financial fitness standards should be required to demonstrate the ability to serve as a COLR on an ongoing basis at the appropriate level of service quality, reliability and security? Under what circumstances should there be a bond required to qualify as COLR?

**c. Audit and Verification Requirements**

The working group should address what Commission audit and/or verification requirements may be warranted to confirm that a winning bidder follows through with commitments to meet specified minimum basic service quality and reliability standards and retail rate levels for basic service? What, if

any, penalties should be imposed for withdrawal, such as the difference between the winning bid amount and the next carrier or re-auction bid amount? What factors should the Commission consider in determining such a penalty?

**d. Term of the COLR Contract for a Winning Bidder**

Should COLR status be granted to a winning bidder for only a set time subject to periodic renewal? If so, what should be the duration of COLR status? What criteria should determine whether renewal should be granted?

**e. Transition Process for New COLRs**

Assuming that a new COLR is selected for a particular area based on a winning bid, what is an appropriate transition period to phase-out an existing COLR's support and phase-in the new COLR's support? Should the same timeframe be used to phase-in coverage and other COLR obligations? Should build-out benchmarks be established? How should such build-out benchmarks be enforced?

If an existing ILEC COLR does not submit a selected bid during the auction, should there be requirements that the ILEC make its existing facilities in the designated area available to a new COLR? To the extent such an approach was followed, through what process would the ILEC receive fair compensation for the use of such facilities?

**Working Group 2: Bidding Protocols**

This working group will consider what processes and protocols should be established to design implement the protocols for bidding under a reverse auction. The working group shall assess the relative advantages and disadvantages of alternative bidding protocols in keeping with the goals of minimizing bidding transaction costs, encouraging the right bidders to participate, and ensuring the integrity of the process and that the winning bidder

will perform its COLR responsibilities as promised. The following protocol issues should be addressed:

- a. What processes should be used to publicize each auction for the solicitation of bids in order to maximize participation by prospective bidders, and to provide for an administrator to run the auction.
- b. Should bidders be allowed to make a single bid on multiple combined areas as a package? (e.g., descending bids with multiple rounds, or sealed bids with a single round.)
- c. In what form should the bid in each area be submitted:
  - i. Flat amount of support per high-cost area;
  - ii. Support per subscriber line;
  - iii. Support per household; or
  - iv. Some other basis
- d. What is a reasonable proxy as an initial auction reserve or upper bound on bids as the basis for payment of support levels within a given high-cost area? What is the most expeditious manner to derive an appropriate benchmark for setting such upper bounds? As a default, should any qualifying upper bid be at or below the existing B-Fund support level for designated areas subject to the auction? Should the HM 5.3 Model is used to designate areas subject to the auction? If so, should a cap be placed on the model results, and what is a reasonable cap? What other adjustments to the results of the HM 5.3 Model, if any, would be appropriate as a basis for setting an initial upper bound on bids?
- e. Should only one COLR be selected as winning bidder for each designated area, or should COLR subsidies be distributed within a single high-cost area among multiple bidders?

**Working Group 3: Defining the geographic area(s) within which a bid would apply.**

This working group shall address questions relating to the applicable geographic area(s) within which an auction bid would apply? As a preliminary assignment, this group should consider the selection of an appropriate region or regions for a pilot project. As previously noted, a pilot project shall be conducted to test the operation of a reverse auction on a preliminary basis. The results of the pilot project shall be evaluated as a basis to consider the design and implementation of a reverse auction on a broader basis.

**a. Pilot Project.**

Based upon what considerations should area(s) for the pilot project be selected? Alternative possibilities may include:

- 1) Select two simultaneous areas for pilot projects, each located in a CBG (or cluster of CBGs) that qualify for high-cost support above the \$36 threshold adopted in D. 07-09-020 (and based on cost proxy data currently used to derive B-Fund support). One area could be in a relatively densely populated area more likely to be attractive to multiple providers and the second area in a more sparsely populated area.

**b. Identification of Geographic Areas for Auction Bidding**

The working group shall separately address questions as to how the areas within which separate auction bidding would be identified after the pilot project is concluded and the auction is extended to apply among high-cost areas throughout California covered by the B-Fund.

How many separate auctions will be required? Should the service area subject to a reverse auction bid be set by the Commission or determined by the bidding process, itself? If the Commission sets the bidding area, what minimum geographical unit should be put up for bidding? What sorts of cost proxy



determinations or updates may be necessary or desirable as a basis to identify areas subject to a bid under the reverse auction? To the extent that bidders are allowed to apply a single bid to multiple high-cost areas to reflect economies of scale, what measures need to be adopted in order to allow bidders to amend or withdraw a bid if the winning bid is awarded for fewer regions than were included in the original bid?

### **Selecting Areas to Conduct a Pilot Project**

**IT IS RULED** that:

1. The formation of separate working groups is hereby authorized to address designated issue areas in accordance with the process outlined above.
2. This ruling shall be served on all certificated telephone corporations in California to provide notice and opportunity for broad participation in the working groups among a cross-section of industry sectors.
3. Any party to the proceeding, or other telephone corporation that is not a party, seeking to nominate members to participate in one or more of the working groups established by this ruling shall send a request within 10 business days to [raworkshop@cpuc.ca.gov](mailto:raworkshop@cpuc.ca.gov) of the Communications Division and concurrently copy the service list in this proceeding. The request should provide the names, qualifications, and contact information for the nominated individuals, with indication of the specific working group(s) for which the nomination is made.
4. Each prospective participant may nominate no more than two members per group. Nominated members should have the requisite technical expertise to provide meaningful input to the group. Working group participants that are not already formal parties to this rulemaking are not required to obtain party status in order to participate in a working group.

5. A subsequent ruling shall be issued establishing the membership roster for each working group, including a designated Commission staff coordinator.

6. Once the membership of the working group is established, each group will be free to establish its own schedules and processes for exchanging information and developing recommendations, as necessary to meet the objectives set forth in this ruling. Working Group meetings will not be required to be noticed in the Commission's Daily Calendar.

7. Each working group shall file and serve a progress report with the Commission 45 days from the date of the ruling establishing the membership roster of each of the designated working groups.

8. After review of the working group progress reports, further guidance will be provided concerning next steps in the design and implementation of a pilot project for a reverse auction.

Dated December 13, 2007, in San Francisco, California.

/s/ RACHELLE B. CHONG

Rachelle B. Chong  
Assigned Commissioner

### **INFORMATION REGARDING SERVICE**

I have provided notification of filing to the electronic mail addresses on the attached service list.

Upon confirmation of this document's acceptance for filing, I will cause a Notice of Availability of the filed document to be served upon the service list to this proceeding and on all certificated telephone corporations in California by U.S. mail. The service list I will use to serve the Notice of Availability of the filed document is current as of today's date.

Dated December 13, 2007, at San Francisco, California.

/s/ JANET V. ALVIAR

Janet V. Alviar